

DBW INVESTMENTS (10) LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2022

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DBW INVESTMENTS (10) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

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DBW INVESTMENTS (10) LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Thorley
M Owen
N Maguinness
R Elston
D Staziker

COMPANY SECRETARY

J Oates

REGISTERED OFFICE

Unit J
Yale Business Village
Ellice Way
Wrexham
LL13 7YL

BANKERS

Barclays Bank Plc
PO Box 69
Queen Street
Cardiff
CF10 1SG

AUDITOR

Mazars LLP
Statutory Auditor
30 Old Bailey
London
EC4M 7AU

DIRECTORS' REPORT

The directors present their Annual Report and the audited Financial Statements for the year ended 31 March 2022. This directors' report has been prepared in accordance with the provisions applicable to small companies entitled to the small companies' exemption.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of financial services to Small and Medium Enterprises ("SMEs"). During the year the Company made the following investments across each of its funds.

		Value		Number of Companies	
	Fund Size (£)	2022 £m	2021 £m	2022	2021
Wales Micro Business Loan Fund	18m	0.01	0.08	1	3
Wales Micro Loan Fund	32.5m	6.7	5.06	318	233
Covid-19 Wales Business Loan Scheme	92m	-	92	-	1,334
Total	142.5m	6.7	97.2	319	1,570

The directors expect the general level of activity to increase in the forthcoming year following the launch of the Covid-19 Wales Business Loan Scheme.

GOING CONCERN

The Directors have made an assessment of going concern, taking into account both current performance and the Company's outlook which considered the impact of the Russian Forces entering Ukraine, Covid-19 pandemic and the UK's exit from the European Union. As part of the assessment of going concern the Directors made enquiries and reviewed forecasts for the Company including considering the recoverability of the outstanding loan investments, undrawn funding commitments and investment repayments made, and the Directors believe there are no material uncertainties that lead to significant doubt on the Company's ability to continue in business over the next 12 months at least.

The going concern assessment for the Group covers all its subsidiaries so all inputs and assumptions used to support our conclusion can be found within the publicly available Group financial statements of Development Bank of Wales. The going concern assessment period covers the period to 30 September 2023, 12 months subsequent to signing the Annual report and financial statements for the year ended 31 March 2022.

As a result of this assessment, the Directors consider that it is appropriate to adopt the going concern basis of accounting in preparing the Company and Consolidated Financial Statements.

RUSSIAN FORCES ENTERING UKRAINE

On 24 February 2022 Russian forces entered Ukraine, resulting in Western Nation reactions including announcements of sanctions against Russia and Russian interests worldwide and an economic ripple effect on the global economy. The directors have carried out an assessment of the potential impact of Russian forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and have concluded that the greatest impact is expected to be from the economic ripple effect on the global economy, but it is not currently possible to determine the amount of potential impairment to investments.

DIRECTORS

The directors of the Company, who served throughout the financial year and subsequently to the date of this report unless stated otherwise, are as shown on page 1.

DIRECTORS' INDEMNITIES

The company has made qualifying third-party indemnity provisions for the benefit of all directors. These were in force during the financial year and remained in force at the date of approval of the financial statements.

DIRECTORS' REPORT

POLITICAL DONATIONS

The company made no political donations during 2022 (2021: nil).

SUBSEQUENT EVENTS

There were no subsequent events to report.

AUDITOR

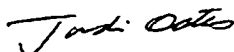
In the case of each of the persons who are directors of the Company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each of the directors have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Development Bank of Wales plc (the "Group") of which the Company is a subsidiary, undertook a procurement exercise for external audit services during the 2022 financial year and Mazars LLP were subsequently appointed.

Approved by the Board of Directors
and signed on behalf of the Board



J Oates
Company Secretary
21 September 2022

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (10) LIMITED**

Opinion

We have audited the financial statements of DBW Investments (10) Limited (the 'company') for the year ended 31 March 2022 which comprise the profit and loss account, balance sheet, and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework."

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (10) LIMITED**

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (10) LIMITED**

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment regulation, health and safety regulation and anti-money laundering regulation.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as tax legislation, pension legislation and the Companies Act 2006.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
DBW INVESTMENTS (10) LIMITED**

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.



Pauline Pélissier

(Senior Statutory Auditor) for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

30 Old Bailey

London

EC4M 7AU

21 September 2022

DBW INVESTMENTS (10) LIMITED

PROFIT AND LOSS ACCOUNT For the year ended 31 March 2022

	Note	2022 £	2021 £
Revenue	4	6,818,297	6,918,057
Operating Expenses:			
Impairment	5	717,687	(3,129,161)
Other operating expenses	5	(4,031,068)	(3,954,789)
Total operating expenses		<u>(3,313,381)</u>	<u>(7,083,950)</u>
OPERATING PROFIT/(LOSS)		<u>3,504,916</u>	<u>(165,893)</u>
Interest receivable and similar income	7	36,979	78,533
Interest payable and similar charges	8	(30,444,157)	(3,046,879)
LOSS BEFORE TAXATION		<u>(26,902,262)</u>	<u>(3,134,239)</u>
Tax on loss	9	-	-
LOSS FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		<u><u>(26,902,262)</u></u>	<u><u>(3,134,239)</u></u>

All activities derive from continuing operations.

There have been no recognised gains and losses for the current or prior financial year other than as stated in the profit and loss account. Accordingly, no separate Statement of Comprehensive Income is presented.

DBW INVESTMENTS (10) LIMITED**BALANCE SHEET**
As at 31 March 2022

	Note	2022 £	2021 £
NON-CURRENT ASSETS			
Trade and other receivables	10	59,902,416	70,311,393
		<u>59,902,416</u>	<u>70,311,393</u>
CURRENT ASSETS			
Trade and other receivables	10	16,756,919	13,186,044
Cash at bank and in hand		44,922,879	37,104,609
		<u>61,679,798</u>	<u>50,290,653</u>
CURRENT LIABILITIES	11	<u>(82,144)</u>	<u>(2,652,848)</u>
NET CURRENT ASSETS		<u>61,597,654</u>	<u>47,637,805</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>121,500,070</u>	<u>117,949,198</u>
NON-CURRENT LIABILITIES	11	<u>(100,161,991)</u>	<u>(69,708,857)</u>
NET ASSETS		<u>21,338,079</u>	<u>48,240,341</u>
CAPITAL AND RESERVES			
Public equity		56,379,920	56,379,920
Called up share capital	13	1	1
Profit and loss account		<u>(35,041,842)</u>	<u>(8,139,580)</u>
TOTAL SHAREHOLDERS' FUNDS		<u>21,338,079</u>	<u>48,240,341</u>

The financial statements of DBW Investments (10) Limited, registered number 07986246, were approved by the Board of Directors and authorised for issue on 21 September 2022.

Signed on its behalf by



M Owen
Director

DBW INVESTMENTS (10) LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2022

	Public equity £	Called up share capital £	Profit and loss account £	Total £
Balance at 1 April 2020	14,538,072	1	(5,005,341)	9,532,732
Total comprehensive loss for the year	-	-	(3,134,239)	(3,134,239)
Increase in public equity	41,841,848	-	-	41,841,848
Sub Total	41,841,848	-	(3,134,239)	38,707,609
Balance at 31 March 2021	56,379,920	1	(8,139,580)	48,240,341
Total comprehensive loss for the year	-	-	(26,902,262)	(26,902,262)
Sub Total	-	-	(26,902,262)	(26,902,262)
Balance at 31 March 2022	56,379,920	1	(35,041,842)	21,338,079

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have been applied consistently throughout the current and prior financial year.

Basis of accounting

DBW Investments (10) Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a private Company limited by shares and is registered in England & Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 2.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) '*Reduced Disclosure Framework*' as issued by the Financial Reporting Council.

The financial statements have been prepared on the historical cost basis and on a going concern basis as discussed in the Director's report on page 2. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services. The principal accounting policies adopted are set out below.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, presentation of a statement of cash flows, revenue disclosures, standards not yet effective and related party transactions. Where required, equivalent disclosures are given in the Group financial statements of Development Bank of Wales plc. The Group financial statements of Development Bank of Wales plc are available to the public and can be obtained as set out in Note 14.

Taxation

Current tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue recognition

Revenue represents interest receivable on loans, application and arrangement fees. All revenue relates to one class of business and arises in the UK on investments made in Welsh businesses.

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income and loan arrangement fees are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividends

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities. Dividend income is recognised within other operating income in the statement of profit and loss.

Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss (FVTPL)) are added or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- all equity investments are subsequently measured at FVTPL.

Loans and advances to customers

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and advances to customers (continued)

A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Where the contractual cash flows introduce exposure to risks or volatility unrelated to a basic lending arrangement such as changes in equity prices or commodity prices, the payments do not comprise solely principal and interest.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Company assesses its business models at a portfolio level based on its objectives for the relevant portfolio and how the performance of the portfolio is managed and reported.

Loan commitments

The Company has no loan commitments as at the balance sheet date. Initial loans and follow-on loans are granted based on conditions at the point of drawdown. The Company will always reserve the right not to invest if agreed conditions are not met.

Effective interest method

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance). For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)).

For purchased or originated credit impaired assets (POCI), the EIR reflects the ECLs in determining future cash flows expected to be received from the financial asset.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not solely payments of principal and interest;
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated as FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on re-measurement recognised in profit or loss. Fair value is determined in the manner described in Note 13.

Impairment

The Company assesses on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instrument assets carried at amortised cost.

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition. At initial recognition, financial assets are categorised as Stage 1 and an impairment provision is made for ECLs resulting from default events projected within the next 12 months (12-month ECL). Subsequently, financial assets are considered to be in Stage 2 when their credit risk has increased significantly since initial recognition, at which point it is considered appropriate to recognise lifetime ECL. Financial assets are included in Stage 3 when there is objective evidence that the asset is credit-impaired, with expected credit losses still calculated on a lifetime basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment (continued)

ECL's are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive, arising from discounting the cash flows at the asset's EIR.

More information is provided in Note 3, including details on how instruments are grouped to assess the correct inputs for the ECL calculation.

Significant increase in credit risk (SICR)

The Company monitors all financial assets that are subject to impairment requirements to assess whether there has been SICR since initial recognition. If there has been SICR the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Company's historical experience and expert credit assessment including forward-looking information, and regional or sectoral information. See Note 3 for more details about forward-looking information.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the performance of the borrower. The Company uses its portfolio risk grading system (grades A to E) to identify credit-impaired financial assets. Indicators of credit-impairment used by the Company are presented in the portfolio grade descriptors on page 20. Assets classified within grade D and E are considered to be credit-impaired.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortised cost are credit-impaired at each reporting date.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

Default is considered to have occurred when there is evidence that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where:

- the customer has incurred significant unauthorised arrears as a result of overdue contractual repayments (see Note 3 for further information on arrears);
- the customer makes a declaration of significant financial difficulty;
- it appears probable that the customer will enter administration, bankruptcy, or another form of financial restructure;
- the customer is unlikely to pay its credit obligations to the Company in full for any other reason.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Company recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Modification and de-recognition of a financial asset

Modification of a financial asset is considered to have occurred under IFRS 9 if the contractual cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of a financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The change to the original contractual terms must be legally binding and enforceable by law.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Modification and de-recognition of a financial asset (continued)

The Company renegotiates and reschedules loans to customers for a number of reasons. The most common reason is to assist customers in financial difficulty in order to maximise our collections and minimise the risk of default. The revised terms in most cases include an extension of the maturity of the loan or changes to the timing of the cash flows of the loan (principal and interest repayment). On modification the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, which are discounted at the original effective interest rate.

An assessment needs to be made at the time of modification as to whether the modification warrants the financial asset being de-recognised and a new financial asset originated. A change is deemed to be substantial if the movement in NPV due to modification is >10%. In these cases, the original financial asset will be de-recognised and, where appropriate, a new financial asset originated at the date of modification. Where a loan is de-recognised and a new loan originated, a gain or loss being the difference between the fair value of the new loan recognised and the carrying amount of the original loan de-recognised (including the cumulative loss allowance) will be recognised in the profit and loss account. The assessment of the credit risk of the new financial asset will start again and the ECL will initially be calculated on a 12-month basis.

The Company would also de-recognise a financial asset where the modification of that financial asset would lead to any of the following scenarios:

- the extinguishing of the contractual rights to the cash flows from the assets, or
- the transfer of the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Write-off

Loans and equity investments are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of payment that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment gains being recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity instruments according to the substance of the contractual arrangements.

Financial liabilities

Financial liabilities are recognised as either financial liabilities at FVTPL or other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Embedded derivatives that are not closely related will be separated from host contracts in accordance with IFRS 9, where a separate derivative is recorded it will be held at FVTPL.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Public equity

The Welsh Ministers, acting through the Welsh Government, have from time to time provided funds for investment purposes. Some of this Welsh Government funding was originally made as Public Dividend Capital (PDC) whilst the remainder is classified as Grant in Aid or Core Funding for Investment purposes.

This non-repayable funding is to invest in the long-term sustainability of Development Bank of Wales and within the Welsh Minister's own accounting arrangements the funds are regarded as being an investment. Additional public equity arises where the Company receives loans from its parent company and relate to amounts received from the Welsh Government at below market rates as described below.

Amounts owed to principal shareholder: Welsh Government loans (WG loans)

The Welsh Government has also provided funding to the parent company which are passed to the Company via interest free loans, these loans are specific to each created with repayment levels linked to the performance of the fund.

Initial recognition

On initial recognition the financial liability is recognised at fair value, calculated in accordance with IFRS 13, with the difference between fair value and the transaction value (funds received) being treated as a capital contribution. In line with previous capital contributions, we will include this in 'Public Equity' within equity on the Balance Sheet.

As it is not possible to identify market transactions involving similar financial instruments and apply a market approach, the Company uses the income approach and a present value technique which uses the future cashflows associated with the loan discounted to give the present value of these cashflows and the fair value of the liability. The key inputs to this technique are the expected cashflows associated with the loan and the discount rate applied to those cashflows. See Note 2 for further information.

Subsequent treatment

Loans are held at amortised cost with a notional interest charge being recorded in each period to reflect the unwinding of the initial discount using the EIR of each loan.

In the event of a revision to expected repayments, the Company shall adjust the amortised cost of a financial liability to reflect the revised estimated contractual cash flows. The amortised cost of the financial liability will be recalculated as the present value of these cash flows using the original EIR of the loan, any adjustment will be recognised in the profit or loss as income or expense.

Related party transactions

In accordance with the exemption conferred by paragraph 8 (j) of FRS 101 "Reduced Disclosure Framework" the Company has not disclosed transactions with other Group companies, where 100% of the voting rights are controlled by the Group.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical judgements in applying the Company's accounting policies (continued)

Welsh Government loans

Under IFRS 9, financial instruments are initially to be recorded at fair value with adjustments for transaction costs in certain circumstances. As described in Note 1, the Company has received from its parent company, interest free loans received from the Welsh Government where in some instances full repayment of the loan principal is not contractually required, as such the initial fair value of the liability recognised is not equal to the transaction value i.e. the loan principal.

Under IFRS 9, financial instruments are initially to be recorded at fair value with adjustments for transaction costs in certain circumstances. As described in Note 1, the Company has received from its parent company, interest free loans received from the Welsh Government where in some instances full repayment of the loan principal is not contractually required, as such the initial fair value of the liability recognised is not equal to the transaction value i.e. the loan principal.

IFRS 9 states that ordinarily the difference between the transaction value and the fair value should be recognised as an expense or reduction of income unless it qualifies for recognition as another type of asset however, treatment of the below-market rate element of an intercompany loan is not directly addressed by IFRS 9. IAS 20 deals with government loans at a below-market rate of interest with the difference treated as a government grant however it does not address the situation where the government entity is a related party.

Whilst the loans provided by the Welsh Government are intended to support their policy objectives, Management's view with reference to the IASB's Conceptual Framework for Financial Reporting is that the substance of these transactions is that a subsidy has been given by a parent company to its subsidiary. This interest subsidy should be recognised as a component of equity in the subsidiary i.e. a capital contribution in the financial statements of the Company. If the interest subsidy had instead been treated as a grant, this would have been recognised in profit or loss on a basis that reflected the substance of that grant.

Deferred tax

A deferred tax asset has not been recognised on the basis that there is insufficient certainty over the evidence of the recovery of these tax losses in future.

If deferred tax assets were recognised in full this would amount to an asset of £692,869 (2021: £924,488) being recognised before any potential liabilities are taken into account.

3. CREDIT RISK

Credit risk is the risk that a customer will default on their contractual obligations resulting in financial loss to the Company. The Company's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk arises from loans and advances to customers.

Credit risk management

The Company's Risk and Compliance team is responsible for managing the Company's credit risk by:

- Ensuring the Company has appropriate credit risk practices, including an effective system of control, to consistently determine adequate allowances in accordance with the Company's stated policies and procedures, and IFRS.
- Identifying assessing and measuring credit risk across the Company, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Company against identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Company's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Company's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method to measure ECL.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

3. CREDIT RISK (continued)

Credit risk management (continued)

- Ensure that the Company has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Company in the management of credit risk.

As part of a three-year internal audit work plan, audits are performed to ensure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk (SICR)

As explained in Note 1 the company monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Company will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Company operates a portfolio grading system that categorises asset exposure according to the degree of risk of default. The Company's grading framework comprises 5 categories and allocates an appropriate grade to each asset which realistically reflects the change in credit risk over the life of the investment.

This approach was implemented as part of the portfolio controls in order to ensure appropriate strategies are deployed on assets given their particular circumstances, and in order to ensure those assets requiring a specific provision are identified. The portfolio grading approach is well embedded in the various portfolio teams, with several controls in place to ensure grading is appropriate.

Assets are classified as grade A to E, with grades A to C representing 'healthy' assets (albeit with grade C showing signs of underperformance and a significant increase in credit risk). Grade D being 'sick' with objective evidence of impairment, and grade E carrying a specific provision.

Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as the Company does not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified. Similarly, assets in the Covid-19 Wales Business Loan Scheme fund are initially graded 'CWBLs' until sufficient information has been obtained to accurately grade these investments.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Internal credit risk ratings (continued)

We would normally expect mainstream investments to start life as a grade B and typically those investments which are exceeding expectations at the point of drawdown would be graded A. We consider that grade A, B, MICRO and CWBLS assets are low risk and healthy and remain with the portfolio team. Together, they are regarded as Stage 1.

Grade C assets, whilst still considered healthy, do show a significant increase in credit risk and are normally managed within the risk team. They are regarded as Stage 2 assets.

Assets in grades D and E show a further increase in credit risk with objective evidence of impairment and are, therefore, regarded for IFRS 9 as Stage 3 assets.

The table below shows a summary of the descriptors for each portfolio grade. The list is not exhaustive, but indicative of the characteristics that "typical" assets in a particular asset class might be expected to display.

Asset Class	Typical Descriptors		
	Calculation of ECL	12 month	Lifetime
A – Healthy	-Good quality financial information submitted on time. -Performance exceeding or more or less in line with business plan. -Risk position not increased since investment made. -Payments made in timely manner. -No negative credit alerts.	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
B – Healthy	-Irregular financial information. -Performance is broadly in line with business plan. -Performance is within covenants. -Payments made in a timely manner. -No negative credit alerts.	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
Micro	Assets in the Micro loan team (up to £50,000) are not allocated a specific portfolio grade as we do not obtain sufficient regular information to accurately grade these investments. These cases are therefore graded 'MICRO'. These loans are however monitored through payment history and Equifax alerts and are graded D or E if risk factors are identified.	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
CWBLS	Assets in the CWBLS classification are not initially allocated a specific portfolio grade as we did not have sufficient regular information to accurately grade these investments. These cases are therefore graded 'CWBLS'. These loans are graded A-E once sufficient information has been obtained through management information and payment history.	Arrears<30 days: Stage 1	Arrears>30 days: Stage 2
C – Early Warning	-Financial information difficult to obtain or not available. -Business still appears to be viable but difficult to assess the risk. -Unauthorised arrears capitalised. -Request for authorised repayment holiday. -Satisfactory explanation to negative credit alert. -Evidence of creditor payments being stretched. -Breach of covenant for two consecutive months.	Stage 1*	Stage 2
D – Sick	-Material underperformance. -Business changed direction or strategy. -Unauthorised arrears. -Breach of covenant for more than two consecutive months. -No formal Time to Pay agreement in place with HMRC. -Payment plans with creditors breached.		Stage 3
E – Terminal	-No recovery from D. -Objective evidence of risk of loss identified warranting a specific provision.		Stage 3

Some Covid-19 business loans classified as Grade C do not show indicators of SICR and remain in Stage 1.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

3. CREDIT RISK (continued)

Overdue accounts

The Company measures investments in arrears in two ways:

- Net Arrears – amounts which are past due and unauthorised.
- Gross Arrears – amounts which are past due compared to the original loan schedule whether authorised or not.

For the purposes of the IFRS 9 approach the gross arrears calculation will be used to identify those assets which are 30 days past due. Assets in Stage 1 which are over 30 days past due are flagged as having a significant in credit risk and moved to Stage 2.

Within IFRS 9 there is a rebuttable trigger for assets which are over 90 days past due to be moved to Stage 3. Assets in Stages 1 and 2 which are over 90 days past due will already have been reviewed and assessed within our grading procedures. The asset may have been modified and rescheduled and payments may now be in line with the revised schedule, but the grading will also have been reviewed and if it is appropriate and there is objective evidence of impairment will have been moved to either a grade D or E and therefore be in Stage 3.

Where the review process indicates there is no objective evidence of impairment, despite the gross arrears in excess of 90 days, assets will remain in Stage 2 and the 90-day trigger is considered to have been rebutted.

Capital repayment holidays, initially lasting 3 months, were offered across the portfolio in response to the impact of the Covid-19 pandemic. Whilst these holidays are considered alongside other key observable data in grading assets and the SICR assessment, the granting of a Covid-19 repayment holiday is not taken as a sole indicator of SICR. Eligibility criteria was broad, and borrowers may have requested a repayment holiday in order to manage liquidity due to short-term cash-flow disruption. Further holidays after the initial 3-month period were given in line with our existing policies and are taken as a SICR trigger.

Incorporation of forward-looking information

The Company uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as its measurement of ECL.

An initial assessment was made to discover if there is a correlation between any of the principal macroeconomic indicators and the Company's default rate. The principal macroeconomic indicators considered were the Bank of England base rate, the unemployment rate, the Consumer Prices Index measure including owner occupiers housing costs (CPIH) annual rate, Gross Domestic Product (GDP) quarter on quarter growth, and the annual house price rates of change for all UK dwellings. It was considered that whilst all these indicators might have an influence, there is no direct correlation between them and the Company's default rate which could be established.

There are additional factors which can influence the credit risk of the Company's investment portfolio, for example, the failure of a major employer could have a significant impact on business in the local area and beyond. Such events are considered as part of the Risk Committee's assessment of forward-looking information. In the prior year an additional review took place on the impact of the pandemic on the portfolio, focussing on highly impacted sectors such as retail and hospitality, resulting in additional assets being identified as credit-impaired with additional allowances recorded as a result. These assets were reviewed in the current year to assess if they were credit-impaired.

Measurement of expected credit loss (ECL)

The portfolio of loans and advances to customers held at amortised cost has been disaggregated into categories of loans with shared credit risks. The Company then uses a loss rate model to calculate the 12-month and lifetime ECL for each category. Previously, four categories of loan with different risk profiles have been identified: micro loans, property loans, rescue and restructure loans, and mainstream loans.

The disaggregation is reconsidered from time to time and amended to fit the risk profiles apparent at that time resulting in the identification of two new categories in the prior year, mutual investment model loans and Covid-19 Wales business loans.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2022

3. CREDIT RISK (continued)

Measurement of expected credit loss (ECL) (continued)

Expected loss rates are calculated for each category of the Company's portfolio with the following main inputs:

- Probability of default – Data is obtained from an external credit specialist which analyses expected default frequencies based on the characteristics of UK companies, such as size and sector, and current market conditions. This data is then mapped to our internal risk gradings using historic loss data to provide a forward-looking expectation for the probability of default.
- Exposure at default – Exposure at the point of default is estimated using historic data from the Group's portfolio and movements in capital balances across each default horizon considered.
- Loss Given default – Expected losses on Grade E assets are used to estimate the loss given default for similar assets held at higher grades.

At the point of ECL measurement, loans are summarised by portfolio grade and the loss rates for each portfolio grade (either 12-month or lifetime, as appropriate) within each of the six categories is applied and the ECL calculated. The calculation is on a discounted cash flow basis where the cash flows are discounted by the original EIR of the loan.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Groupings based on shared characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, specifically:

- Portfolio grade; and
- Investment type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

Credit quality

Class of financial instrument

The Company monitors credit risk per class of financial instrument. An analysis of the Company's credit risk concentrations per class of financial asset is provided in the following tables:

Loans and advances to customers at amortised cost.

Concentration by category	2022	2021
	£	£
Micro Loan Funds	14,945,538	11,708,483
Covid-19 Wales business loans	61,713,797	71,788,672
	<u>76,659,335</u>	<u>83,497,155</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Exposure by class, internal rating and stage

An analysis of the Company's 'credit risk exposure per class of financial asset, internal rating and 'stage' is provided below:

Loans and advances to customers at amortised cost

	2022			
	£			
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	18,668,792	-	-	18,668,792
Grade Micro: Low to fair risk	19,926,229	-	-	19,926,229
Grade CWBLS: Low to fair risk	19,140,988	-	-	19,140,988
Grade A-B: Low to fair risk - in arrears	-	3,819,700	-	3,819,700
Grade Micro: Low to fair risk - in arrears	-	6,821,551	-	6,821,551
Grade CWBLS: Fair risk – In arrears	-	2,264,767	-	2,264,767
Grade C: Early warning	1,139,730	2,646,214	-	3,785,944
Grade C: Early warning – in arrears	-	1,626,786	-	1,626,786
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	639,729	639,729
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	1,455,259	1,455,259
Grade E: Objective evidence of impairment	-	-	4,554,910	4,554,910
Total Gross carrying amount	58,875,739	17,179,018	6,649,898	82,704,655
Loss allowance	(1,038,427)	(984,543)	(4,022,350)	(6,045,320)
Net Carrying amount	57,837,312	16,194,475	2,627,548	76,659,335
Provision coverage ratio	1.8%	5.7%	60.5%	7.3%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Exposure by class, internal rating and stage (continued)

Loans and advances to customers at amortised cost

	2021			
	£			
	Stage 1	Stage 2	Stage 3	Total
Grade A-B: Low to fair risk	19,444,406	-	-	19,444,406
Grade Micro: Low to fair risk	21,482,444	-	-	21,482,444
Grade CWBLS: Low to fair risk	25,511,051	-	-	25,511,051
Grade A-B: Low to fair risk - in arrears	-	2,212,298	-	2,212,298
Grade Micro: Low to fair risk - in arrears	-	5,284,257	-	5,284,257
Grade CWBLS: Fair risk – In arrears	-	2,226,161	-	2,226,161
Grade C: Early warning	4,676,252	1,850,887	-	6,527,139
Grade C: Early warning – in arrears	-	1,596,309	-	1,596,309
Grade D: Significant increase in credit risk and objective evidence of impairment	-	-	1,032,158	1,032,158
Grade D: Significant increase in credit risk, objective evidence of impairment and in arrears	-	-	661,398	661,398
Grade E: Objective evidence of impairment	-	-	4,364,113	4,364,113
Total Gross carrying amount	71,114,153	13,169,912	6,057,669	90,341,734
Loss allowance	(2,444,708)	(1,394,166)	(3,005,705)	(6,844,579)
Net Carrying amount	68,669,445	11,775,746	3,051,964	83,497,155
Provision coverage ratio	3.4%	10.6%	49.6%	7.6%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (continued)

Movement of loss allowance during year

The table below analyses the movement of the loss allowance during the year per class of asset:

Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£
Loss allowance as at 1 April 2021	2,444,708	1,394,166	3,005,705	6,844,579
Changes in the loss allowance:				
New financial assets originated	133,631	-	-	133,631
Transfers to Stage 1	328,437	(104,859)	(223,578)	-
Transfers to Stage 2	(312,535)	619,956	(307,421)	-
Transfers to Stage 3	(55,033)	(120,841)	175,874	-
Increase /(decrease) due to change in credit risk	(1,491,682)	(803,879)	1,599,913	(695,648)
Financial assets derecognised in the year	(9,099)	-	-	(9,099)
Write offs	-	-	(228,143)	(228,143)
Loss allowance as at 31 March 2022	1,038,427	984,543	4,022,350	6,045,320

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

3. CREDIT RISK (CONTINUED)

Movement of the gross carrying amount during year

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance is provided in the table below:

Loans and advances to customers at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	£	£	£	£
Gross carrying amount as at 1 April 2021	71,114,153	13,169,912	6,057,669	90,341,734
Changes in the gross carrying amount:				
New financial assets originated	6,486,349	-	-	6,486,349
Transfers to Stage 1	1,509,058	(910,870)	(598,188)	-
Transfers to Stage 2	(7,794,011)	8,729,785	(935,774)	-
Transfers to Stage 3	(1,654,803)	(1,014,465)	2,669,268	-
Financial assets derecognised in the year	(9,099)	-	-	(9,099)
Write offs	-	-	(228,143)	(228,143)
Other changes	(10,775,908)	(2,795,344)	(314,934)	(13,886,186)
Gross carrying amount as at 31 March 2022	58,875,739	17,179,018	6,649,898	82,704,655

Other changes in the table above predominantly relates to repayments received during the year that have reduced outstanding balances on assets that remain held at year end.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is £nil (2021: £nil).

Modified financial assets

As a result of the Company's forbearance activities financial assets might be modified. There are no net modification gains or losses from financial assets where modification does not result in derecognition.

DBW INVESTMENTS (10) LIMITED

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2022

4. REVENUE

An analysis of the Company's revenue, all of which arises in the UK, is as follows:

	2022 £	2021 £
Fees	52,483	29,086
Loan interest	6,765,814	6,888,971
Revenue	<u>6,818,297</u>	<u>6,918,057</u>

5. OPERATING PROFIT

	2022 £	2021 £
Operating profit has been arrived at after charging/(crediting):		
Impairment	<u>717,687</u>	<u>(3,129,161)</u>
Auditor's remuneration		
	2022 £	2021 £
Fees payable to the Company's auditor for the audit of the Company's financial statements	<u>44,190</u>	<u>44,190</u>
Tax compliance	<u>-</u>	<u>2,841</u>

6. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received any emoluments from the Company in the current or prior financial year. It is not practicable to allocate their remuneration between their services as directors of this Company and other Group companies. Further details of directors' remuneration are presented in the financial statements of Development Bank of Wales plc and DBW FM Limited.

The directors were the only employees of the Company during the current and prior financial year.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2022 £	2021 £
Interest receivable:		
- Bank deposits	<u>36,979</u>	<u>78,533</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2022 £	2021 £
Bank loans	-	-
Notional interest on Welsh Government loans	<u>30,444,157</u>	<u>3,046,879</u>
	<u>30,444,157</u>	<u>3,046,879</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

9. TAX

	2022 £	2021 £
Current taxation		
UK corporation tax charge for the year	-	-
The charge for the year can be reconciled to the loss in the profit and loss account as follows:		
	£	£
Loss before tax	(26,902,262)	(3,134,238)
Tax on loss at standard UK corporation tax rate of 19% (2021: 19%)	(5,111,430)	(595,505)
Effects of:		
Expenses not deductible	5,712,764	514,316
Group relief/other reliefs	(239,965)	70,311
Deferred tax not recognised	(361,369)	10,878
Total taxation charge	-	-

A net deferred tax asset of £692,869 (2021: £848,346) has not been recognised in respect of deductible temporary differences, tax losses and loan relationships.

The main rate of corporation tax is 19%. From 1 April 2023 the main rate of corporation tax will be 25% and this rate has been used to calculate deferred tax in these financial statements.

10. TRADE AND OTHER RECEIVABLES

	2022 £	2021 £
Trade and other receivables		
Current assets		
Loans receivable carried at amortised cost	19,057,810	13,445,777
Impairment	(2,300,891)	(260,015)
	16,756,919	13,185,762
Other debtors	-	282
	16,756,919	13,186,044
Non-current assets		
Loans receivable carried at amortised cost	63,646,845	76,895,957
Impairment	(3,744,429)	(6,584,564)
	59,902,416	70,311,393

The Company enters into agreements to advance loans to Small and Medium Enterprises (SMEs) in Wales. The average term of loans entered into is five years. The interest rate inherent in the loans is fixed at the contract date for all of the loan term. The average effective interest rate contracted is approximately 3.2% per annum (2021: 2.8%).

The loans advanced are a mixture of unsecured and secured loans. Security is over counterparty assets. The maximum exposure to credit risk of loans receivable for the current and prior period is the carrying amount.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

10. TRADE AND OTHER RECEIVABLES (continued)

Before accepting any new customer, the Company follows its investment operating guidelines to assess the potential customer's credit quality and define customer acceptance. Recoverability of loans advanced is reviewed monthly.

Loans receivable disclosed above include amounts which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is overdue) continue to be considered recoverable.

In determining the recoverability of loans receivable, the Company considers any change in the credit quality of the loans receivable from the date credit was initially granted up to the reporting date. The concentration of loan receivable credit risk is limited due to the large number of customers who are unrelated.

11. FINANCIAL LIABILITIES

Trade and other payables

Current liabilities	2022	2021
	£	£
Accruals	47,031	2,623,031
Other creditors	35,113	29,817
Amounts owed to group subsidiary	-	-
	<u>82,144</u>	<u>2,652,848</u>
Non-current liabilities		
Amounts owed to parent company	100,126,340	69,682,183
Other creditors	35,651	26,674
	<u>100,161,991</u>	<u>69,708,857</u>

The Company's financial liabilities are carried at amortised cost. The directors consider that the carrying amount of trade creditors approximates their fair value.

There are no trade creditors past due and the trade creditors and other creditors will be settled within the credit period offered by the counterparty.

Amounts owed to parent company relates to amounts due to Development Bank of Wales plc in relation to Financial Transaction Reserve and Core Capital funding received from the Welsh Government. No formal repayment terms are in place with the Welsh Government at present, however there is no expectation that this will be repaid within the next 25 years. These amounts are not interest bearing.

Other creditors fall due within five years (2021: within five years).

12. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Capital risk management

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital, public equity, reserves and retained earnings as disclosed in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

12. FINANCIAL INSTRUMENTS (continued)

Categories of financial instruments

The Company's financial instruments comprise investments in SMEs in the form of loans and trade receivables and payables arising from its operations. The purpose of the instruments is to raise finance for the Company, and to invest in SMEs in Wales.

The accounting policy note describes how the classes of financial instrument are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by class of financial instrument to which they are assigned and by the measurement basis.

Carrying value as at 31 March 2022 £	Note	Financial assets and liabilities at amortised cost	Total
Assets			
Cash and cash equivalents		44,922,879	44,922,879
Loans to customers	i		
Other receivables		76,659,335	76,659,335
Total financial assets		<u>121,582,214</u>	<u>121,582,214</u>
Non-financial assets			-
Total assets			<u>121,582,214</u>
Liabilities			
Amounts due to parent company	ii	100,126,340	100,126,340
Trade and other payables	ii	117,795	117,795
Total financial liabilities		<u>100,244,135</u>	<u>100,244,135</u>
Reserves			21,338,079
Total reserves and liabilities			<u>121,582,213</u>
Carrying value as at 31 March 2021 £	Note	Financial assets and liabilities at amortised cost	Restated Total
Assets			
Cash and cash equivalents		37,104,609	37,104,609
Loans to customers	i	83,497,155	83,497,155
Other receivables		282	282
Total financial assets		<u>120,602,046</u>	<u>120,602,046</u>
Non-financial assets			-
Total assets			<u>120,602,046</u>
Liabilities			
Amounts due to parent company	ii	69,682,183	69,682,183
Trade and other payables	ii	2,679,522	2,679,522
Total financial liabilities		<u>72,361,705</u>	<u>72,361,705</u>
Reserves			48,240,341
Total reserves and liabilities			<u>120,602,046</u>

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2022

12. FINANCIAL INSTRUMENTS (continued)

The carrying value of the Company's financial instruments is considered to approximate fair value and hence a separate disclosure of carrying value versus fair value is not presented.

Note:

- i) Loans to customers and other receivables are measured using an amortised cost basis and calculated using the effective interest rate method in accordance with IFRS 9.
- ii) The fair value of amounts owed to our ultimate parent, other third parties, share capital and public equity are assumed to approximate to their carrying amount at the balance sheet date. Financial Transaction Reserve (FTR) and Core Capital funding is not carried at fair value (see Liquidity Risk Management for fair value consideration of FTR and Core Capital funding).

Market risk

The Company's activities expose it primarily to the financial risks of changes in credit risks.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The majority of financial liabilities are amounts owed to parent company and relate to amounts due to Development Bank of Wales plc in relation to Financial Transaction Reserve and Core Capital funding received from the Welsh Government. No formal repayment terms are in place with the Welsh Government at present, however there is no expectation that this will be repaid within the next 25 years.

The Company's result is not seen as a risk but as part of the normal pattern for businesses involved in making long-term investments.

13. CALLED UP SHARE CAPITAL

	2022 £	2021 £
Authorised and allotted		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid		
1 ordinary share of £1	1	1

The Company has one class of ordinary shares which carry no right to fixed income.

14. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company's immediate parent undertaking is DBW Holdings Limited, a company incorporated in the United Kingdom. Development Bank of Wales plc is the smallest group within which the Company is a member, and for which consolidated financial statements are prepared. Welsh Ministers is the largest group within which the Group results are consolidated. The registered office address of Development Bank of Wales plc is Unit J, Yale Business Village, Ellice Way, Wrexham, LL13 7YL. Copies of the Group financial statements of Development Bank of Wales plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. The consolidated financial statements of Welsh Ministers may be obtained from its registered address, Cathays Park, Cardiff, CF10 3NQ.

Development Bank of Wales plc regards the Welsh Ministers, acting through the Welsh Government, as the ultimate parent company and ultimate controlling party.